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JAPAN AND THE URUGUAY ROUND

Summary

The current round of multilateral trade negotiations based on the General Agreement on Tariffs and Trade has passed the midway point. While few substantive agreements have yet been reached, neither have the talks broken down. For those who believe that free trade helps the economies of those countries that permit it, this amounts to at least a mild antidote to the pain of actual and threatened protectionist measures in the current international trading environment. Japan, which by all accounts benefited tremendously from previous GATT negotiations, has an obvious interest in restoring the momentum toward multilateral negotiations and free trade. The United States also would stand to benefit from a successful conclusion of the Uruguay Round. But viewed at this juncture, the ultimate degree of success at the talks remains unclear.

The Goal of Free Trade

In his seminal work more than two centuries ago that virtually launched economics as a profession, Adam Smith posed, then answered, the question of how nations increase their wealth. His answer, in brief: free trade. Mr. Smith believed market forces were equally well-suited to regulating economic activity domestically and internationally. In an international context free trade means that countries refrain from imposing barriers in the form of tariffs or quantitative restrictions on the flow of goods and services across international boundaries.

Mr. Smith's thinking was radical in his time, when mercantilist philosophies of international trade held sway. Two hundred years later the free-trade argument has become the conventional wisdom among economists to a degree little appreciated by practitioners outside the discipline, who accuse economists of not agreeing among themselves on anything.

Some who argue for free trade make the following simple argument. Higher exports clearly benefit an economy. Liberalized trading arrangements that lead to higher exports therefore are beneficial. This line of thinking leaves the impression that higher imports are the relatively low cost a country pays for the benefits of higher exports. This proposition is incorrect. Free trade permits each individual, firm or country to specialize in doing what it does best relative to other potential suppliers of the good or service. In this way individuals generally are able to obtain products and services at the lowest possible cost relative to the effort they have to expend in providing goods and services to the market. On a national level countries benefit more or less equally from imports and import-competing goods that are cheaper than otherwise and exports that, through expanded international trading opportunities, can fetch more than if markets were closed.

An important implication of the argument for free trade is that international trade negotiations are unusual in that a nation benefits from both making concessions on imports and gaining concessions on exports. Hence, if liberalized trade permits a country to specialize and import low-cost products it otherwise would have to produce at home, such a regime should be adopted. Even if its trading partner fails to reciprocate, the scheme probably still is worthwhile for the liberalizing country. This argument has particular relevance for U.S.-Japan trade. If, as some argue, Japan reneges on agreements with the United States to open up trade, this country would lose if it either restores restrictions on trade it had dropped as part of the agreement or imposes new protectionist measures. Similarly, Japan's supposedly different philosophy concerning market principles, as outlined in Clyde V. Prestowitz's book, Trading Places,[1] at most suggests the benefits from liberalizing trade with Japan could be limited, not that the United States would be worse off as a result of negotiations that open its markets to Japanese goods and services.

These arguments suggest that the winners and the losers from free trade are scattered throughout the economy. In the policy debates surrounding trade liberalization, however, two groups appear to predominate: exporting industries and their workers, who favor free trade for obvious reasons, and import-competing industries and their employees, whose opposition is equally predictable. Trade negotiators therefore typically try to push for maximum advantage for their exporters and minimum damage for their import-competing firms for political reasons, even though economically speaking it would make about as much sense to advocate liberalized imports as it does to tout higher exports.

[1]Clyde V. Prestowitz, Trading Places: How We Allowed Japan to Take the Lead (New York, New York: Basic Books, 1988).

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GATT and Its Alternatives

International agreements to liberalize trade are time-consuming processes; even the simplest negotiations between two countries in a narrow range of goods can take years. Changes in international trade regimes can come about in several ways.

• They can be the result of multilateral negotiations, the most ambitious choice. The best known such process is the General Agreement on Tariffs and Trade. Eight rounds of GATT talks have been held since 1947. The most recently completed, the Tokyo Round, was proposed in 1971, formally began in 1973 and ended in November 1979. The current negotiations, the Uruguay Round, began in late 1986 and are scheduled for completion in 1990. (The two most recent rounds have carried the names of the city or country where they began. Actual negotiations generally occur in Geneva, Switzerland, which also is the location of the GATT Secretariat.) In the early years of GATT the focus was on tariffs and quotas on imports. Now that these impediments to trade largely have been eliminated, recent rounds have focused on other nontariff measures as well as such other barriers as subsidies and rules concerning direct investment.

Seven years elapsed between the end of the Tokyo Round and the beginning of the Uruguay Round and at least four years more will have passed before the current round ends. Some have argued that the protracted nature of the GATT negotiations limits institutional memory of previous rounds. This aspect of the talks often has been cited as a disadvantage to the United States. Turnover among the ranks of U.S. working-level negotiators, if not at the policy-making level, is believed to be higher than in countries like Japan. At the same time, if more liberalized trade is the objective, successful GATT negotiations have the greatest coverage, with more than 90 countries signing on to accords that typically encompass a wide range of traded products.

• International trade negotiations alternatively can take place within a smaller group of nations, often only two. Sometimes these talks cover a broad range of trade-related goods and services. In extreme cases the object of the negotiations is a free-trade area between or among the parties involved. Since the conclusion of the Tokyo Round, the United States has negotiated FTAs with Israel and Canada. Both accords substantially liberalize trade almost across-the-board. To what extent these pacts complement, rather than substitute for GATT arrangements, is a matter of some debate. U.S. officials have argued that they can serve as models for the GATT negotiators and motivate third countries to hop on the free-trade bandwagon. Others contend that they divert negotiating energy away from the GATT process and have economic disadvantages compared to GATT agreements. The chief drawback is that often only two countries are involved, limiting the gains and creating some risk that, compared to a multilateral agreement such as GATT, global commerce will be diverted away from the most efficient international supplier toward a member of the FTA.

A few people, led by former U.S. Ambassador to Japan Mike Mansfield, have called for a U.S.-Japan FTA. While the idea has its supporters on both sides of the Pacific, many feel that the disadvantages -- trade diversion and preemption of the GATT process -- would be especially serious were the "Big Two" to get together in this way. Few expect that an agreement would be possible with Japan anywhere nearly as quickly as the mere two years it took American and Canadian negotiators. (For details see JEI Report No. 44A, November 18, 1988.)

Less ambitious than FTAs are bilateral negotiations over a narrow range of products. The United States and Japan have a variety of negotiating forums. Highly publicized trade agreements in telecommunications equipment and services, semiconductors, beef and oranges and other areas have resulted from such talks. Of course, other countries may not like being left out, especially when Japan and the United States appeared to be arranging the world market to suit themselves. This, for example, was at the heart of Europe's complaint about the U.S.-Japan semiconductor accord, viewed by Europeans as an international cartel under the two economic giants' joint sponsorship. And, of course, the gains are limited compared to GATT agreements or FTAs, while the possibility of trade diversion is substantial. However, many U.S.-Japan accords have resulted in more open markets for all potential exporters to Japan for the products in question.

GATT: A Review

GATT came into being in the immediate postwar period, along with organizations such as the International Monetary Fund and the World Bank. Its existence has coincided with a remarkably high rate of growth of trade and output around the world, with trade growing faster than output (see Table 1). While economic prosperity obviously depends on much more than the international trade regime, there is broad agreement that the successive GATT rounds deserve some of the credit. As one of the fastest growing economies during this time, Japan took full advantage of the relatively liberal existing trade regime to reap the benefits of international specialization. On the export side, shipments grew by leaps and bounds. Imports also expanded, with one result being that Japan's self-sufficiency in food dropped. The reallocation of resources away from Japan's inefficient farms toward its efficient factories was just what the economic textbooks explained would happen in a relatively open trading system.

Table 1: Growth of World Trade and Output

(average annual percentage change)

	1960-1970	1970-1980	1980-1987	1986	1987
Exports					
Agriculture	4%	3%	1%	-1%	5%
Mining	7	1	-1	7	1
Manufacturing	11	7	5	4	5
Total	9	5	3	4	5
Output					
Agriculture	3	2	2	1	-3
Mining	5	3	-1	5	1
Manufacturing	7	5	3	3	5
Total	6	4	3	3	3

Source: General Agreement on Tariffs and Trade

Japan joined GATT in 1955, but the benefits of trade liberalization came slowly. When Japan became a member, European and other nations invoked Article

35 of the general agreement that permits the nonapplication of GATT rules to certain members; the result was to limit Japanese exports to countries that at that time accounted for one-third of world trade. Nor did Japan initially adopt all the provisions of GATT, not accepting Article 11 (the general prohibition of quantitative restrictions) until 1963.

In those days, of course, Japan had a very different relationship with the rest of the world. While the United States and Europe generally regarded Japan as peripheral to the world economy, they did fear Japanese competition in labor-intensive goods, such as textiles. For its part, Japan maintained a web of restrictions on its domestic economy; a free-trade attitude on the international scene would have been surprising given its absence domestically.

The Kennedy Round from 1964 to 1967 ended up being particularly important for Japan and for the world economy. Industrial tariffs were reduced an average of 35 percent in most of Japan's export markets. According to one estimate, the effect of the round was to increase Japanese exports 24 percent and imports 8.5 percent.[2]

Japan's support for the GATT process has increased with progressive rounds. At first its enthusiasm for the Kennedy Round was lukewarm, probably a a result of the GATT-inconsistent provisions it still maintained. In addition, at the time it reportedly was considering raising tariffs on some agricultural and manufactured goods in anticipation of reduced foreign exchange controls. In the late stages of the Kennedy Round, however, its enthusiasm increased as its balance of payments position improved.[3]

The Tokyo Round was proposed in 1971. Negotiations did not begin until the United States passed enabling legislation in 1975. Once the round was completed in 1979, Japan was among the most eager to implement the accord. Table 2 shows how the Tokyo Round reduced tariffs. Nontariff barriers also were an important topic, but, as will be seen below, progress was less clear-cut.

Table 2: Effect of Tokyo Round on Tariff Rates

	Average Tariffs	
	Before	After
Japan	9.9%	5.5%
United States	8.2	6.0
European Community	9.7	7.0

Source: Ministry of Finance

[2]Kiyoshi Kojima, Japan and a Pacific Free Trade Area (Berkeley and Los Angeles, California: University of California Press, 1971).

[3]For details see Ryutaro Komiya and Motosige Itoh, "Japan's International Trade and Trade Policy, 1955-1984," in Takashi Inoguchi and Daniel I. Okimoto (eds.), The Political Economy of Japan: Volume 2: The Changing International Context (Stanford, California: Stanford University Press, 1988), pp. 181-83.

Recent Use of GATT Provisions

GATT provides a mechanism for resolving trade disputes that fall under its rules, although the involved parties often solve their differences through direct negotiations. Japan recently has shown a new willingness to make use of the GATT mechanism to protect its interests. Tokyo has argued that the European Community's dumping provisions are GATT-inconsistent, violating the principle of equal treatment of foreign and domestic concerns. Specifically, the question is whether products of a Japanese-owned factory in Europe that contain a substantial number of components sourced from Japan should be counted as Japanese, and therefore subject to regulations regarding dumping, or domestic to the country where the factory is located, and thereby outside the coverage of the EC's dumping rules. Negotiations with the EC on this issue began in early 1987, and in October 1988 Japan formally asked GATT to study the question. GATT agreed to do so this spring, and its report is expected late this year (see JEI Report No. 20B, May 19, 1989).

The EC also has had a recent major case against Japan. The Europeans claimed that the 1986 semiconductor accord between the United States and Japan was being unfairly implemented, in particular that Tokyo imposed export restrictions in violation of GATT rules. A GATT panel agreed with the EC, and in March Tokyo announced new rules that satisfy the European complaints. The new measures went into effect June 1.

The United States, too, has used, or threatened to use, the GATT process against Japan. Japan initially blocked then accepted in early 1988 a GATT finding that confirmed an American complaint that Tokyo's restrictions on 10 agricultural goods violated GATT's Article 11 against quantitative restrictions (see JEI Report No. 7B, February 19, 1988). A U.S. decision to take Japan's beef and orange restrictions to GATT may have spurred negotiations that within only a few months substantially liberalized these sectors and precluded the U.S. action (see JEI Report No. 24B, June 24, 1988).

While the United States has not been reluctant to use the GATT process against Japan and other nations when it believes they violate international trading rules, Washington has behaved somewhat differently when it has stood accused. To the irritation of Japan and other GATT contracting parties, U.S. policymakers sometimes have appeared to ignore GATT decisions finding the United States in violation of GATT rules. With GATT essentially depending on voluntary compliance to correct violations, the pattern of America's behavior has raised questions about the U.S. commitment to the multilateral trade organization.

Yoshio Hatano, one of Japan's representatives to GATT, has publicly criticized the U.S. handling of a GATT decision concerning patent infringement. In November 1988 a GATT panel ruled as discriminatory to non-Americans Section 337 of the Tariff Act of 1930, which provides for a separate procedure for foreign firms accused of patent infringement. As such, the provision was deemed GATT-illegal. At five subsequent meetings, most recently in mid-June, the United States has blocked adoption of the finding. Brazil believes Washington has imposed GATT-illegal sanctions on its U.S.-bound exports in connection with a dispute over Brazil's alleged infringement of drug patents. Other nations, including Canada, still are pressing for a response to two GATT decisions that went against the United States in 1987, one involving Customs-user fees and the other a tax on oil imports for the environmental superfund.

Toward the Uruguay Round

Few experts believed that the evolution of GATT was complete with the end of the Tokyo Round in 1979. While the Tokyo Round took up many nontariff issues, many proved to be intractable. For example, little progress was made in making Article 19, the safeguards clause, more effective. This clause sets forth the conditions under which nations may implement temporary measures to protect an industry while it adapts to increased competition from foreign suppliers.

The problem lies in so-called "gray-area measures," the legality of which is not addressed clearly by current GATT rules. Yet the measures would appear to violate the spirit of the intended limits set forth in Article 19. Since the completion of the Tokyo Round, gray-area measures have proliferated. The orderly marketing agreements the United States negotiated in 1984 with foreign steelmakers are one example. In 1985 the Council of Economic Advisers estimated that the proportion of manufacturing subject to such measures increased to about 30 percent in 1983 from about 20 percent just three years earlier.[4] Critics who argue that GATT increasingly is irrelevant usually are referring to the widespread use of such fuzzy measures to restrict trade.

Services are another area that escaped inclusion in the Tokyo Round. Service industries -- which vary from housekeeping services to international banking -- dominate the economies of most industrialized countries. In the United States a small number of firms, with American Express Co. and some of its officials generally identifiable as the prime movers, have pressed for including services in GATT.

Actually, the argument for services as an item on the GATT agenda has never been as compelling as some would make it. While services undeniably are critical in the domestic economy, they account for a small, and declining, portion of international trade, a fact confirmed by a recent U.S. government study launched partly as a result of pressure from some in Congress eager to prove just the opposite.[5] Some of those pressing for inclusion of services on the GATT agenda resisted having the Commerce Department make this survey, perhaps intending to rely on a widely publicized, less comprehensive consultant's study that appeared to show that the services trade was much larger than Commerce eventually found.

Those advocating a full-fledged assault to liberalize international commerce in services often forget that the nature of services makes international trade unlikely for many service industries. If trade in doctors' services, for example, were to go global, either doctors would have to travel to foreign countries, their patients would have to come from abroad to see them or the services would have to be provided by telephone or some other communications network. Each of these possibilities is quite limited.

[4]Council of Economic Advisers, Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1985), p. 114.

[5]See "International Services: New Information on U.S. Transactions With Unaffiliated Foreigners," Survey of Current Business, October 1988, pp. 27-34.

The real concern for those making the case to include services under GATT is the right of service firms to engage in activities across national boundaries. This may include, for example, foreign governments permitting U.S. banks to establish branches abroad and to employ foreign nationals to provide services in their own countries. While worldwide economic efficiency would be raised by liberalizing such activities where currently restricted, the benefits to the participating countries are qualitctively different than in the case of traded services or goods. For example, American employees of a U.S. construction firm being permitted to provide its services in an overseas market would receive little benefit, in contrast to the employees of a firm that exported its products to a newly liberalized market.

The 1985 Economic Report of the President referred to above identified agricultural trade as even more riddled with distortions than trade in manufactured goods.[6] Agriculture largely had escaped earlier GATT attention, although many issues going before GATT involve agriculture, with the recent successful U.S. action against Japan's import restrictions on certain processed agricultural commodities and food products being an example. The more fundamental issue was, and is, agricultural subsidies, an almost universal feature of industrialized countries, but one that, given the volume of agricultural trade, carries a particularly large risk of distorting trade patterns even when the subsidies are confined nominally to domestic production and sales.

Finally, the GATT mechanism itself is in need of reorientation. As evident from the examples in the previous section, contracting parties have paid uneven attention to GATT decisions. In the absence of an enforcement mechanism, many feel that GATT has suffered from a lack of involvement at the top policymaking levels of member countries along with cumbersome and time-consuming procedures that have reduced its effectiveness.

For all these reasons, GATT was perceived as having tremendous holes on the eve of the Uruguay Round. The 1989 Economic Report of the President even went so far as to say, "Limits on product coverage have been made by commission and omission, with the result that GATT is by and large an agreement prescribing the rules of the game for those manufactured products that are not too politically sensitive in the industrial countries."[7]

From Punta Del Este to Geneva

On the urging of the United States, Japan and some others, the contracting parties of GATT agreed in a September 1986 meeting in Punta Del Este, Uruguay to launch a new GATT round, addressing some unfinished items from the Tokyo Round as well as some new ones.

In the early stages of the round, services probably were the most contentious issue. Developing countries resisted their inclusion on the agenda. A face-saving formula eventually was developed: services would be discussed

[6]Council of Economic Advisers, op. cit.

[7]Council of Economic Advisers, Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1989), p. 158.

separately from other issues. As the talks have progressed, though, this has proven to be a distinction without a difference: progress in the services negotiating group has been linked to that in others.

At least one major variation from the Tokyo Round has been introduced. A rush of activity at the end of the previous round had been necessary to complete the negotiations. This time the ministers planned on a midterm review (dubbed by some in the initial stages as an "early harvest") as a way of measuring and -- the ministers hoped -- spurring progress. One major objective was to demonstrate to skeptical developing countries that the round would benefit them. This review also, they hoped, would generate support on the homefront of contracting countries for the negotiations and the results as they emerged.

What happened was a near disaster. Acrimony marked the midterm review, held in Montreal in December 1988, with the United States and Europe at loggerheads over agricultural subsidies (see JEI Report No. 47B, December 16, 1988). While very broad framework agreements were reached in 11 areas, they were made contingent on reaching agreement on agriculture and three other areas at a later meeting scheduled for Geneva.

In Geneva the sessions went better. Framework agreements were reached by April 18 in all 15 negotiating areas (see Table 3), thereby rescuing the tentative agreements reached in Montreal (see JEI Report No. 16B, April 21, 1989). But in some cases these accords amounted to very little. On trade-related investment measures, the negotiators could not come to a consensus on the scope of TRIMs to be subject to multilateral discipline. On agriculture the parties used vague language on the prickly question of subsidies. The framework agreement on textiles essentially repeated a portion of the text of the Punta Del Este declaration that launched the talks. In general, some of the participants characterized the framework agreements as little more than agreements to keep talking; others have said privately that they do not know what the framework agreements mean.

There were a few exceptions to this inconclusive result:

- Tropical products - The United States, Japan and others agreed to substantial cuts in tariffs on products from tropical areas. The agreement in this area thereby fulfilled one of the early objectives of demonstrating a concrete beneficial result of the Uruguay Round to developing countries.

- Functioning of the GATT system - The contracting parties agreed to quick implementation of various measures. These included provisions for: a Trade Policy Review Mechanism, which would examine on a regular basis domestic policies that affect international trade; GATT meetings at the ministerial level at least once every two years; and additional informal contact between the staff at GATT and at the IMF and the World Bank.

- Dispute settlement - The contracting parties agreed in Geneva to implement May 1 on a provisional basis an agreement reached in Montreal that would speed up substantially the process of dispute resolution. Specifically, the agreement sets time limits at various stages in the process. It also provides for a speedy, flexible arbitration process as an alternative to the normal one, faster procedures for forming GATT panels, new procedures where several parties have similar complaints, and more follow-up on adopted panel reports. Agreement in this area reportedly had been a Japanese priority.

Table 3: Negotiating Groups for the Uruguay Round

Group of Negotiations on Goods

Tariffs - While agreement has been reached to cut already low tariffs further, substantial disagreement remains on the best approach.

Nontariff Measures - A variety of topics could be discussed, possibly overlapping other negotiating groups. One chief focus appears to be rules of origin.

Tropical Products - Discussions include tariff and nontariff measures on both agricultural and nonagricultural goods produced in tropical areas, usually in developing countries.

Natural Resource-Based Products - The main focus has been on ferrous and nonferrous metals, forestry products and fisheries. Among the possible issues are subsidies, export restrictions and two-tier pricing.

Textiles and Clothing - The Multi-Fiber Arrangement and how it fits into the GATT framework are major issues.

Agriculture - Talks relate to agricultural policies that directly or indirectly affect import access, including tariffs, nontariff barriers, subsidies and export competition.

GATT Articles - Negotiations aim at possible changes in GATT articles not covered by other negotiating groups. The focus has been on Articles 17 (state trading), 18 (balance of payments), 21 (national security), 24 (free trade areas), and 28 (renegotiation of tariff concessions).

MTN Agreements and Arrangements - The goal here is to update and improve the seven agreements known as codes negotiated during the Tokyo Round that had as their purpose reducing nontariff barriers to trade. The government procurement code, for example, provides for national treatment of government purchases of goods. The codes are only binding among those parties that specifically agree to abide by them.

Safeguards - This group is reviewing, and may strengthen, Article 19, which permits restrictive measures in certain cases when imports are increasing rapidly and provides limits and conditions on these actions. The idea is to increase the use of Article 19 in place of gray-area measures that largely have replaced it in recent years.

Subsidies and Countervailing Measures - These talks aim to clarify the treatment of subsidies under GATT, which now are defined using subjective standards. Currently, under Article 16 of GATT a country may impose countervailing duties if it finds material injury to domestic producers from subsidized imports.

Dispute Settlement - This mechanism by which countries can bring complaints of other countries' GATT-inconsistent practices before GATT is being studied for ways to improve its procedures.

Trade-Related Aspects of Intellectual Property, Including Trade in Counterfeit Goods (TRIPs) - The goal here is to extend GATT protection and procedures to intellectual property rights such as copyrights, trademarks and patents. Presumably if protection were stronger, trade in goods and services embodying intellectual property, such as software, would increase.

Trade-Related Investment Measures (TRIMs) - This section discusses investment rules that have the effect of altering trade patterns adversely. For example, local content legislation is a TRIM since it mandates local investment for those wishing to export the product to the country enacting the legislation.

Functioning of the GATT System (FOGS) - A means of increasing GATT's effectiveness, primarily by increasing the level of interaction with governments and international organizations, leads this group's agenda.

Group of Negotiations on Services

Services - These talks encompass all sectors other than manufactured goods and primary products such as agriculture and raw materials. The objectives of those attempting to liberalize international activity in services are likely to focus on providing access to foreign suppliers of services on terms equal to those available to domestic suppliers (national treatment) and transparency (open, clear, measurable and verifiable rules).

Sources: Ministry of Foreign Affairs, Department of Commerce and General Agreement on Tariffs and Trade

Virtually everyone participating in the talks agrees that an enormous amount of work remains to be done in the next 18 months. For example, many consider the framework agreement in services to be a major accomplishment. However, negotiators have not yet decided which service sectors will be covered. Reports out of Tokyo in late May suggested a number of sectors, such as telecommunications and transportation, that the negotiators had selected to serve as "sector tests" to determine how an agreement might work in specific services. However, this list of industries was not to be taken as evidence that an actual agreement eventually would be negotiated in these sectors. One possibility is an "umbrella" agreement, with guidelines as to how the arrangement might work in specific industries and, perhaps, with provisions for exceptions to the overall accord.

The Next 18 Months

Well over halfway through their schedule the negotiators clearly have their work cut out, but the potential payoff remains large. If completely successful, the current round could lead to much lower trade barriers. Of course, comprehensive and detailed agreements in each of the 15 areas is asking a lot. One veteran of the current round, Michael Samuels, who until earlier this year was deputy U.S. trade representative and ambassador to GATT, has suggested that to be credible the current round will need to reach meaningful agreements in two areas, safeguards and subsidies. Concrete action in the former, especially, could go far toward reversing the number of trade barriers nations have erected in recent years.

The United States is pushing for all the parties to have their drafts on the table by the end of 1989, leaving 1990 for cutting deals. According to the current schedule, which no one wants to admit could slip, the negotiations should be completed by the end of 1990. Assuming no delays, as December 1990 approaches the pace of negotiations undoubtedly will pick up. One possibility is for a ministerial-level meeting behind closed doors to thrash out the remaining major differences. The U.S. coordinator for the Uruguay Round, Warren Lavorel, has mentioned a November 1990 meeting, probably in Brussels.

The GATT round in a sense is competing against a timetable posed by the tightening integration of the European Community scheduled for 1992. Early agreement in the Uruguay Round could circumscribe the EC's flexibility to establish new trade regimes within the community and with respect to the rest of the world.

GATT and the New Trade Law

Another important influence is the 1988 Omnibus Trade and Competitiveness Act. One reason for the act was to renew the fast-track congressional approval procedures needed for GATT, but some feel the act is casting a long shadow in other ways.

Most fundamental is the question of whether the new law has provisions that are either technically GATT-incompatible or that at least violate the spirit of GATT. Under GATT provisions, for example, a contracting party that feels its exports are being unfairly treated can take its complaint before the organization. The mere existence of this alternative often is enough to ensure successful negotiations between the two parties. In other cases a GATT decision

carries the weight of international opinion and can be decisive in settling disputes. By contrast, the U.S. trade act sets this country up as both plaintiff and jury in some questions of market access for its goods and services worldwide. The executive branch's initial steps to implement the trade act, particularly the naming of Brazil and India as priority countries under the new Super 301 provision, reportedly has at least temporarily soured the GATT negotiating climate in Geneva. (Japan, the third country named, has less reason than Brazil and India, as shown below, to use the Super 301 action as an excuse to block progress in Geneva.)

Other features of the trade act may complicate GATT negotiations later. For example, if bilateral talks with Tokyo under the Super 301 framework are unsatisfactory, Washington might feel compelled to impose additional economic sanctions on Japan. To be consistent with current GATT terms, the Bush administration will have to choose those sanctions carefully. Many observers expect GATT to rule that Washington's recently imposed restrictions against Brazilian exports are GATT-inconsistent. To avoid running afoul of GATT again, U.S. officials may have to pick areas not subject to GATT currently but potentially coming under international trade rules on the basis of agreements reached in the Uruguay Round.

A concern of some Japanese officials is that implementation of the trade act is diverting the attention of U.S. Trade Representative Carla Hills and her staff. The act imposes tight deadlines and mandates negotiations in a variety of ways, which generally involve the chief U.S. trade negotiator. Since USTR is also the lead U.S. agency for the Uruguay Round, the small USTR staff may have a hard time giving the Uruguay Round the attention it deserves.

Another concern is that some in Congress may feel that the trade act is a substitute for a new GATT agreement. Congress spent much of its time in 1987 and 1988 considering trade legislation when legislators otherwise might have devoted their attention to new multilateral trade negotiations. In this respect, the atmosphere in Congress differed from comparable earlier rounds. I.M. Destler, a professor in the School of Public Affairs at the University of Maryland, has noted that Congress regarded the Uruguay Round as a peripheral issue in 1987 and 1988, in contrast to 1962 and 1974 when legislators saw their role as arming the executive branch for the Kennedy and the Tokyo Rounds, respectively. Furthermore, Congress this time has been skeptical about what the new round could accomplish and tended to focus on unilateral action, as exemplified by the expanded scope of Section 301 of the 1974 Trade Act.[8]

The United States and Japan in GATT

As more than one congressman has said, the Super 301 section of the new trade act was written with Japan in mind. With Japan now on the short list of priority countries that the USTR has compiled to meet the requirements of the Super 301 provision, the Bush administration has accommodated that view (see JEI Reports No. 17A, April 28, 1989, and No. 22B, June 9, 1989). In considerable contrast, the GATT agenda is for the most part devoid of issues that divide the United States and Japan.

[8]I.M. Destler, "U.S. Trade Policymaking in the Uruguay Round," in Henry R. Nau (ed.), Domestic Trade Politics and the Uruguay Round (New York, New York: Columbia University Press, 1989), p. 201.

Agriculture is the obvious exception. Japan is said to have emerged as the leader along with Egypt of a small group of nations known as the food security group. Members of this group have noncompetitive agricultural industries and virtually no agricultural exports. As such, they are naturally resistant to proposals that eliminate agricultural subsidies and free up agricultural trade. In addition to Japan and Egypt, others in this group include South Korea, Switzerland and the Nordic countries. For Japan, of course, the most important single agricultural commodity is rice, which sells at several times world market prices in Japan.

At the opposite extreme, the Cairns group of agricultural-exporting countries, led by Australia and Canada, would like substantial liberalization. In the middle are the United States and the EC, which are both exporters and importers. For these reasons, the flare-up in Montreal between the United States and the EC was spectacular in part because the parties could have been expected to have relatively similar interests.

On subjects other than agriculture, however, Japan and the United States appear to agree more than disagree on the issues facing the Uruguay Round. On intellectual property, where one could be forgiven for thinking that the two countries are at loggerheads, Tokyo and Washington are in agreement over the need to strengthen protection for patents, trademarks and copyrights. In this case, they find themselves in disagreement with such countries as Brazil and India.

Both the United States and Japan feel they are internationally competitive in service industries. Since each feels it would benefit from more open markets, a meaningful agreement to liberalize trade or international investment in this area would have their support. The United States has advocated adherence to the same broad principles -- national treatment, transparency and nondiscrimination -- contained in a Japanese proposal. As in several other negotiating areas, foot-dragging is more evident among developing countries, which feel they need a chance to bring their service industries up to international standards.

Earlier this month Japan submitted to the negotiating group on nontariff measures a proposal concerning rules of national origin. The objective is to clarify the circumstances under which goods produced locally in foreign-owned plants using some inputs from abroad would be considered foreign or local for trade purposes. On this issue, which obviously is related to Tokyo's complaint discussed above concerning EC actions against products made by Japanese transplants, Japan's negotiators generally have the support of the U.S. team.

Some of the most contentious issues between the United States and Japan hardly figure in the Uruguay Round. The United States, for example, would very much like to see changes in Japan's distribution system, yet that issue is not covered under any of the 15 negotiating areas.

While some observers have noted a distinct lack of enthusiasm for the Uruguay Round in Japan, others believe that Tokyo is intent on the round's success. The latter group likens Tokyo's posture toward GATT negotiations to the attitude needed to ride a bicycle: you have to keep pedaling forward to avoid a fall. In this view, Japan would regard the principal contribution of the current round to be an end to the progressive erosion of GATT principles in recent years.

Conclusion

Has the multilateral trading system reached its darkest point before the dawn ushered in by potentially dramatic breakthroughs in the Uruguay Round? Some involved in the negotiations believe that to be the case. They point to the relatively cooperative attitude of developing countries as an encouraging factor compared to previous rounds.

Many breakthroughs remain possible, at least technically. The Multi-Fiber Arrangement, which allows the United States and many other countries to negotiate restraints on imports of textiles and apparel on a supplier-by-supplier basis, will be discussed in the textile negotiating group; a conceivable weakening of the MFA would be a great step forward for free trade. If telecommunication services were liberalized worldwide, businesses and individuals -- especially outside the United States -- could expect lower prices and more sophisticated services. American firms would generate significant new business. If the U.S. steel restraint agreements had to be scrapped, benefits would accrue to steel users in the United States and foreign steel companies, among others.

Agreement on even a few important issues, like those outlined, would be a welcome change to free-traders throughout the world who have seen so much movement toward restricting international competition in recent years. Some remember how quickly issues crystallized and were resolved in the final stages of the Tokyo Round and are hoping for the same this time.

U.S. acquiescence to any agreement, of course, would require congressional approval. Some legislators have complained that the White House has not involved them sufficiently in the GATT negotiations to date. Given the current mood on Capitol Hill, a new GATT agreement may not be judged tough enough on Japan. Add the inevitable provisions that would harm certain U.S. interests, and a number of lawmakers may find at least some political ammunition and, perhaps, reason to vote against the agreement. Of course, such speculation involves reading the mood of Congress and the public a year and a half from now, a difficult exercise at best.

Those who believe in strengthening GATT have been encouraged by the progress in the Uruguay Round to date and are hopeful that, if an agreement comes before Congress, it would pass. Such action certainly would signal a positive turn in U.S.-Japan trade relations and, quite possibly, renewed momentum for free trade generally.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.